MEASURING GDP AND ECONOMIC GROWTH*

Gross Domestic Product

1) Gross domestic product is the total ____ produced within a country in a given time period.
   A) market value of all final and intermediate goods and services
   B) market value of all final and intermediate goods and services plus investment and depreciation
   C) amount of final and intermediate goods and services
   D) market value of all final goods and services
   
   **Answer: D**

2) The circular flow diagram shows
   A) how nominal GDP is distinct from real GDP.
   B) how the prices of factors are determined.
   C) the effects of inflation in a simple economy.
   D) the flows between different sectors of the economy.
   
   **Answer: D**

3) The circular flow diagram indicates that
   A) households sell the services of factors of production to firms.
   B) firms buy the services of factors of production from the government.
   C) households sell goods and services to the government.
   D) firms buy goods and services from households.
   
   **Answer: A**

4) In the circular flow model of an economy with no government sector and no international trade, households
   A) receive income from buyers of goods and services.
   B) receive income from the sale of factors in the goods market.
   C) pay firms for the use of their factors.
   D) receive income from producers for the use of factors in the factor markets.
   
   **Answer: D**

5) In the circular flow diagram, aggregate expenditure includes the sum of
   A) saving and investment.
   B) consumption and investment.
   C) consumption, investment, and saving.
   D) income and saving.
   
   **Answer: B**

6) In the circular flow of economic activity
   A) aggregate expenditure measures the dollar value of purchases of factors.
   B) aggregate expenditure measures the dollar value of purchases of final goods and services.
   C) aggregate income measures the dollar value of labor resources only.
   D) aggregate expenditure is measured as it moves through the financial markets.
   
   **Answer: B**

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* This is Chapter 21 in *Economics.*
7) The government’s budget deficit is the excess of government
A) purchases of goods and services over its interest
    payments on the government debt.
B) purchases of goods and services over its net
taxes.
C) net taxes over its purchases of goods and services.
D) interest payments on the government debt over
    its net taxes.
Answer: B

8) If U.S. imports are less than U.S. exports, the
A) rest of the world borrows from the U.S. economy.
B) U.S. economy borrows from the rest of the world.
C) U.S. government has a budget surplus.
D) U.S. government has a budget deficit.
Answer: A

9) If the rest of the world lends to the U.S. economy,
A) the U.S. government has a budget surplus.
B) the U.S. government has a budget deficit.
C) U.S. imports are less than U.S. exports.
D) U.S. imports exceed than U.S. exports.
Answer: D

10) When exports from the United States exceed im-
    ports into the United States, the rest of the world
A) borrows from the United States or sells U.S. as-
    sets.
B) lends to the United States or sells U.S. assets.
C) borrows from the United States or buys U.S. as-
    sets.
D) lends to the United States or buys U.S. assets.
Answer: A

11) When imports into the United States exceed ex-
    ports from the United States, the United States
A) borrows from the rest of the world or sells for-
    eign assets.
B) lends to the rest of the world or sells foreign as-
    sets.
C) borrows from the rest of the world or buys for-
    eign assets.
D) lends to the rest of the world or buys foreign as-
    sets.
Answer: A

12) Which of the following are equal to one another?
I. aggregate production
II. aggregate expenditure
III. aggregate income
A) I equals II, but not III.
B) I equals III, but not II.
C) II equals III, but not I.
D) I equals II equals III.
Answer: D

13) Investment is financed by which of the following?
I. Government spending
II. National saving
III. Borrowing from the rest of the world
A) I, II, and III
B) I and II only
C) I and III only
D) II and III only
Answer: D

14) National saving is defined as the amount of saving
by
A) businesses.
B) households.
C) businesses and households.
D) businesses and households and the government.
Answer: D
15) National saving equals
   A) household saving + business saving.
   B) household saving + business saving + government saving.
   C) household saving + business saving + net taxes – government purchases of goods and services.
   D) Both answers B and C are correct.
   Answer: D

16) National saving is defined as
   A) the total amount of household saving.
   B) personal saving by households and businesses plus government saving.
   C) the saving by the federal government.
   D) None of the above answers are correct.
   Answer: B

17) If the government runs a budget deficit, then
   A) national saving is negative.
   B) household but not business saving must pay for the deficit.
   C) part of household and business saving finances the deficit.
   D) national saving cannot fund investment.
   Answer: C

18) If national saving (S) is $100,000, net taxes (T) equal $100,000 and government purchases of goods and services (G) are $25,000, how much are households and businesses saving?
   A) $25,000.
   B) $225,000.
   C) –$25,000.
   D) None of the above.
   Answer: A

19) Suppose the U.S. spends more on foreign goods and services than foreigners spend on our goods and services and the U.S. sells no foreign assets. Then
   A) the United States must borrow an amount equal to national saving.
   B) the United States must borrow an amount equal to imports minus exports.
   C) the rest of the world may or may not finance the U.S. trade deficit.
   D) the United States must borrow an amount equal to consumption expenditure plus investment.
   Answer: B

20) If foreigners spend more on U.S.-made goods and services than we spend on theirs,
   A) foreigners must borrow from the United States or sell U.S. assets to make up the difference.
   B) all U.S. national saving remains in the United States
   C) we must borrow from foreigners because of low imports.
   D) funds flow in from abroad to help finance U.S. investment.
   Answer: A

21) If our exports are $1.2 billion and our imports are $1.7 billion,
   A) the United States is lending to the rest of the world.
   B) U.S. national saving is too high.
   C) the United States is borrowing from the rest of the world.
   D) U.S. investment must decrease.
   Answer: C
Topic: Flows and Stocks
Skill: Recognition
22) A feature of a stock variable and a flow variable is that
A) a stock is a quantity per unit of time and a flow is a quantity that exists at a point in time.
B) a stock is a quantity that exists at a point in time and a flow is a quantity per unit of time.
C) a stock only measures the value of goods and services produced in a country during a given time period.
D) an example of a stock variable is real GDP and an example of a flow variable is consumption expenditure.
Answer: B

Topic: Flows and Stocks
Skill: Conceptual
23) Which of the following is a stock variable?
A) Investment.
B) Income.
C) Wealth.
D) Saving.
Answer: C

Topic: Flows and Stocks
Skill: Conceptual
24) GDP is
A) a measure of the amount of government debt.
B) investment in the nation’s economy.
C) stock.
D) flow.
Answer: D

Topic: Flows and Stocks
Skill: Conceptual
25) Which of the following is a flow variable?
A) investment.
B) capital.
C) the amount of money in your savings account.
D) the number of CD’s you own.
Answer: A

Topic: Flows and Stocks
Skill: Conceptual
26) Which of the following is NOT a flow variable?
A) The number of DVD players sold per month.
B) The number of DVDs available at the library.
C) Annual spending on DVD rentals.
D) The number of DVDs produced per year.
Answer: B

Topic: Flows and Stocks
Skill: Conceptual
27) Which of the following is a flow variable?
A) Capital.
B) Gross domestic product.
C) Wealth.
D) The money in your pocket.
Answer: B

Topic: Flows and Stocks
Skill: Conceptual
28) An example of a flow variable is
A) capital.
B) consumption expenditure by households.
C) the machinery owned by a firm.
D) the cash held by households.
Answer: B

Topic: Flows and Stocks
Skill: Conceptual
29) Which of the following is a stock variable?
A) Capital.
B) Consumption expenditure by households.
C) Gross investment.
D) Depreciation.
Answer: A

Topic: Flows and Stocks
Skill: Conceptual
30) An example of a stock quantity is
A) real GDP.
B) consumption expenditure by households.
C) gross investment.
D) wealth.
Answer: D

Topic: Wealth and Saving
Skill: Recognition
31) Which of the following is FALSE about saving?
A) Saving adds to wealth.
B) Income left after paying taxes can either be consumed or saved.
C) Saving equals wealth minus consumption expenditures.
D) Saving is a flow variable.
Answer: C
32) At the beginning of the year, your wealth is $10,000. During the year, you have an income of $90,000 and you spend $80,000 on consumption. You pay no taxes. Your wealth at the end of the year is
A) $20,000.00.
B) $0.
C) $90,000.00.
D) $100,000.00.
Answer: A

33) At the beginning of the year, your wealth is $10,000. During the year, you have an income of $80,000 and you spend $90,000 on consumption. You pay no taxes. Your wealth at the end of the year is
A) $20,000.00.
B) $0.
C) $90,000.00.
D) $100,000.00.
Answer: B

34) The term capital, as used in macroeconomics, refers to
A) the plant, equipment, buildings, and inventories of raw materials and semi-finished goods.
B) financial wealth.
C) the sum of investment and government purchases of goods.
D) investment.
Answer: A

35) The term capital, as used in macroeconomics, refers to
A) the amount of money that someone can invest in a new venture.
B) the amount of money a firm can raise in the stock market.
C) manufactured inputs, including inventories, buildings, machinery, etc.
D) All of the above answers are correct.
Answer: C

36) The term capital, as used in macroeconomics, includes all of the following except
A) inventories.
B) equipment.
C) buildings.
D) a company’s work force.
Answer: D

37) Capital
A) includes the plant, equipment, and buildings owned by firms.
B) increases when depreciation increases.
C) does not include semifinished goods used to produce other goods and services.
D) is a flow variable.
Answer: A

38) Depreciation
A) does not change the level of capital in the economy.
B) is the decrease in the capital stock because of wear and tear.
C) is also known as capital consumption.
D) Both answers B and C are correct.
Answer: D

39) Investment, as defined in the text, refers to the purchase of
A) new capital.
B) stocks and bonds.
C) durable goods by consumers.
D) All of the above answers are correct.
Answer: A

40) Which of the following is not included in the investment component of GDP?
A) A household purchases a new washing machine.
B) Purchase of new equipment by a business.
C) A firm builds a new warehouse.
D) A business fails to sell all of its output and therefore experiences an increase in inventories.
Answer: A
Topic: Capital and Investment  
Skill: Recognition  
41) Gross investment  
A) is the purchase of new capital.  
B) includes only replacement investment.  
C) does not include additions to inventories.  
D) Both answers A and B are correct.  
Answer: A  

Topic: Capital and Investment  
Skill: Recognition  
42) The total amount spent on adding to the stock of capital and on replacing depreciated capital is  
A) capital consumption.  
B) gross investment.  
C) depreciation.  
D) the net stock of investment.  
Answer: B  

Topic: Capital and Investment  
Skill: Recognition  
43) The total amount spent on adding to the stock of capital and on replacing depreciated capital is  
A) consumption on new capital.  
B) depreciation.  
C) gross investment.  
D) net investment.  
Answer: C  

Topic: Capital and Investment  
Skill: Recognition  
44) Economists define depreciation as  
A) the decrease in the capital stock from wear and tear and obsolescence.  
B) the loss in stock market of a company’s value.  
C) the drop in the price of a company’s product.  
D) All of the above answers are correct.  
Answer: A  

Topic: Capital and Investment  
Skill: Recognition  
45) Depreciation is  
A) the sum of gross and net investment.  
B) a stock variable that affects the economy’s ability to produce.  
C) the difference between gross investment and the capital stock.  
D) one of the flow variables affecting the capital stock.  
Answer: D  

Topic: Capital and Investment  
Skill: Conceptual  
46) If the economy’s capital stock increases over time,  
A) net investment is positive.  
B) depreciation is less than zero.  
C) depreciation exceeds gross investment.  
D) gross investment equals depreciation.  
Answer: A  

Topic: Capital and Investment  
Skill: Conceptual  
47) If the economy’s capital stock decreases over time,  
A) net investment is positive.  
B) depreciation is less than zero.  
C) depreciation exceeds gross investment.  
D) gross investment equals net investment.  
Answer: C  

Topic: Capital and Investment  
Skill: Analytical  
48) The Acme Stereo Company had a capital stock of $24 million at the beginning of the year. At the end of the year, the firm had a capital stock of $20 million. Thus its  
A) net investment was some amount but we need more information to determine the amount.  
B) net investment was $4 million for the year.  
C) gross investment was zero.  
D) net investment was –$4 million for the year.  
Answer: D  

Topic: Capital and Investment  
Skill: Analytical  
49) At the beginning of the year, Tom’s Tubes had a capital stock of 5 tube inflating machines. During the year, Tom scrapped 2 old machines and purchased 3 new machines. Tom’s net investment for the year totaled  
A) 1 machine.  
B) 2 machines.  
C) 3 machines.  
D) 6 machines.  
Answer: A
50) At the beginning of the year, Tom’s Tubes had a capital stock of 5 tube inflating machines. During the year, Tom scrapped 2 old machines and purchased 3 new machines. Tom’s gross investment for the year totaled
A) 1 machine.
B) 2 machines.
C) 3 machines.
D) 6 machines.
Answer: C

51) At the beginning of the year, Tom’s Tubes had a capital stock of 5 tube inflating machines. During the year, Tom scrapped 2 old machines and purchased 3 new machines. Tom’s capital stock at the end of year equals
A) 1 machine.
B) 2 machines.
C) 3 machines.
D) 6 machines.
Answer: D

52) Depreciation is subtracted from gross domestic product to determine directly
A) consumption expenditures plus investment expenditures plus government purchases plus net exports.
B) disposable income.
C) net domestic product.
D) national income.
Answer: C

53) GDP equals net domestic product plus
A) transfer payments and business transfers.
B) depreciation.
C) indirect business taxes and personal taxes.
D) retained earnings.
Answer: B

54) In the nation of Nirvana, depreciation is $22 billion, GDP is $260.4 billion, and national income is $215.2 billion. Net domestic product is
A) smaller than national income.
B) $215.2 billion.
C) $238.4 billion.
D) $445.2 billion.
Answer: C

55) Which of the following correctly describes GDP?
I. GDP is a flow variable.
II. GDP is the value of the production of an individual firm’s goods and services.
III. GDP can be calculated using the expenditure approach or the income approach.
A) I only.
B) III only.
C) I and III.
D) II and III.
Answer: C

56) GDP can be computed as the sum of
A) all sales that have taken place in an economy over a period of time.
B) the total expenditures of consumers and business over a period of time.
C) the total expenditures of consumption, investment, and government purchases of goods and services over a period of time.
D) the total expenditures of consumption, investment, government purchases of goods and services, and net exports over a period of time.
Answer: D
57. GDP using the expenditure approach equals the sum of personal consumption expenditures plus
   A) gross private investment.
   B) gross private investment plus government purchases of goods and services.
   C) gross private investment plus government purchases of goods and services minus imports of goods and services.
   D) gross private investment plus government purchases of goods and services plus net exports of goods and services.
   Answer: D

58. The expenditure approach measures GDP by adding
   A) compensation of employees, rental income, corporate profits, net interest, and proprietors' income.
   B) compensation of employees, rental income, corporate profits, net interest, proprietors' income, subsidies paid by the government, indirect taxes paid, and depreciation.
   C) compensation of employees, rental income, corporate profits, net interest, proprietors' income, indirect taxes paid, and depreciation and subtracting subsidies paid by the government.
   D) consumption expenditure, gross private domestic investment, net exports of goods and services, and government purchases of goods and services.
   Answer: D

59. Which of the following is NOT part of the expenditure approach to measuring GDP?
   A) Gross private domestic investment
   B) Net exports of goods and services
   C) Net interest
   D) Personal consumption expenditures
   Answer: C

60. To measure GDP using the expenditure approach you must collect data on
   A) inflation.
   B) exports.
   C) wages.
   D) saving.
   Answer: B

61. Aggregate expenditures include all of the following EXCEPT
   A) consumption of food.
   B) purchases of intermediate goods.
   C) purchases of a piece of capital equipment.
   D) purchases of guns by the government.
   Answer: B

62. In the expenditure approach to GDP, the largest component is
   A) government purchases.
   B) personal consumption expenditures.
   C) gross private domestic investment.
   D) net exports.
   Answer: B

63. Let $C$ represent consumption expenditure, $S$ saving, $I$ gross private domestic investment, $G$ government purchases of goods and services, and $NX$ net exports of goods and services. Then GDP equals
   A) $C + S + G + NX$.
   B) $C + S + G - NX$.
   C) $C + I + G + NX$.
   D) $C + I + G - NX$.
   Answer: C
64) Consumption expenditure is the payment by households for consumption of
   A) goods but not services.
   B) services but not goods.
   C) goods and services.
   D) services and for saving.
   Answer: C

65) The largest component of GDP is
   A) gross private domestic investment.
   B) personal consumption expenditures.
   C) net exports of goods and services.
   D) government purchases of goods and services.
   Answer: B

66) Personal consumption expenditures include
   A) expenditures by households on goods and services produced only in the United States.
   B) expenditures by households on goods and services produced in the United States and the rest of the world.
   C) the purchase of new homes.
   D) the purchase of used goods and new goods.
   Answer: B

67) All of the following household expenditures are included in consumption expenditure EXCEPT
   A) payment to a dentist for filling a tooth.
   B) purchase of corporate stock.
   C) purchase of a new purse.
   D) purchase of hair styling.
   Answer: B

68) Gross private domestic investment is all purchases of newly produced business capital goods and buildings
   A) minus the change in business inventories.
   B) plus the change in business inventories plus residential construction.
   C) plus fixed investment minus inventory investment.
   D) plus purchases of capital goods produced in previous years to replace any depreciated capital goods.
   Answer: B

69) The difference between gross investment and net investment is
   A) inflation.
   B) depreciation.
   C) initial capital.
   D) consumption.
   Answer: B

70) Goods that are produced this year, stored in inventories, and then sold to consumers next year
   A) count in this year’s GDP.
   B) count in next year’s GDP.
   C) count in both this year’s and next year’s GDP.
   D) are not counted as a part of GDP.
   Answer: A

71) An example of “investment” in computing real GDP using the expenditure approach is the purchase of
   A) a new set of tools by an auto mechanic, for use in repairing cars.
   B) 100 shares of IBM stock.
   C) a 100 year old house by a married couple.
   D) computer chips by IBM to put in their personal computers.
   Answer: A
72) An example of “investment” in the national income accounts is the purchase of
A) a new van by a potter, who packs it with his wares and travels to art shows.
B) 100 shares of Canadian stock on the New York Stock Exchange.
C) a 100-year-old house that was just put on the protected historic sites list in the year in question.
D) a U.S. government bond.
Answer: A

73) In the national income accounts, the purchase of a new house counts as
A) consumption expenditure.
B) investment.
C) a transfer.
D) an addition to inventory.
Answer: B

74) All of the following are included in gross private domestic investment expenditure EXCEPT a
A) business’s purchase of a fleet of cars.
B) household’s purchase of a new house.
C) business’s purchase of another company’s stock.
D) a retail store’s purchase of shoes to add to its inventory.
Answer: C

76) In the national income accounts, government purchases of goods and services exclude
A) transfer payments.
B) state and local government purchases.
C) local government purchases but include state government purchases.
D) spending on national defense.
Answer: A

77) Which of the following is included in the government purchases component of the expenditure approach to GDP?
A) State government expenditure on local schools
B) Transfer payments
C) Changes in inventories
D) Taxes
Answer: A

78) Which one of the following transactions in a particular year is included in gross domestic product for that year?
A) Social Security payments to retirees
B) The government pays a computer services company that assisted in the delivery of Social Security payments to retirees
C) A car is produced in the previous year and remains in inventory for the entire year under consideration
D) A stay-at-home parent performs housework that the family would otherwise have paid a maid $20,000 a year to perform.
Answer: B
In the computation of GDP, social security payments count as
A) transfer payments and are included in GDP.
B) transfer payments and are not included in GDP.
C) government purchases of goods and services and are included in GDP.
D) government purchases of goods and services and are not included in GDP.
Answer: B

Which of the following is NOT part of GDP?
A) General Motors’ purchases of new capital equipment
B) Expenditures by the federal government for national defense
C) Social security payments made to the elderly
D) The purchase of new homes by consumers
Answer: C

Transfer payments are not part of government purchases of goods and services because transfer payments are not predictable given the nature of their appropriation and allocation.
A) are not predictable given the nature of their appropriation and allocation.
B) do not represent the purchase of a final good or service.
C) are not always spent on goods produced in the U.S.
D) The premise of the question is incorrect because transfer payments are part of government purchases of goods and services.
Answer: B

From the data in the above table, GDP equals
A) $1,120.
B) $1,280.
C) $1,290.
D) $1,360.
Answer: D
85) Using the data in the above table, net domestic product equals
A) $1,120.
B) $1,280.
C) $1,290.
D) $1,360.
Answer: A

86) The approach to GDP that sums compensation of employees, rental income, corporate profits, net interest, proprietors’ income, depreciation, and indirect taxes and subtracts subsidies is the
A) opportunity cost approach.
B) expenditure approach.
C) added cost approach.
D) income approach.
Answer: D

87) The income approach to measuring GDP sums together
A) compensation of employees, rental income, corporate profits, net interest, proprietors’ income, subsidies paid by the government, indirect taxes paid, and capital consumption expenditures.
B) compensation of employees, rental income, corporate profits, net interest, proprietors’ income, indirect taxes paid, and capital consumption expenditures and subtracts subsidies paid by the government.
C) the sales of each firm in the economy.
D) the costs of each firm in the economy and then subtracts indirect business taxes and the capital consumption allowance.
Answer: B

88) Proprietors’ income is a component of which approach to measuring GDP?
A) Incomes approach.
B) Expenditure approach.
C) Cost approach.
D) Output approach.
Answer: A

89) Which of the following is a component of the incomes approach to GDP?
A) Consumption expenditure.
B) Wages and salaries.
C) Investment.
D) Government purchases of goods and services.
Answer: B

90) The largest component of national income is
A) compensation of employees.
B) rental income.
C) corporate profits.
D) proprietors’ income.
Answer: A

91) Which of the following is included in “compensation of employees” part of the income approach to measuring GDP?
I. Wages and salaries.
II. Pension fund contributions.
III. Social security contributions.
A) I only.
B) I and II.
C) I and III.
D) I, II and III.
Answer: D

92) When calculating the compensation of employees part of GDP,
A) social security contributions must be included.
B) fringe benefits are not included.
C) taxes withheld on earnings are not included.
D) the value of vacation time must be included.
Answer: A
Topic: Income Approach, Net Interest  
Skill: Recognition  
93) In the national income accounts, net interest is the total interest payments received by households on loans made by them minus  
A) interest received from households’ ownership of government bonds.  
B) interest payments made by households on their own borrowing.  
C) interest payments made by households to foreign lenders.  
D) taxes paid by households on their interest income.  
Answer: B

Topic: Income Approach, Rental Income  
Skill: Recognition  
94) Rental income includes  
A) the payment for the use of land.  
B) the payment for the use of all rented inputs.  
C) no income from rental housing because most houses are occupied by their owners.  
D) Both answers A and B are correct.  
Answer: D

Topic: Income Approach, Corporate Profits  
Skill: Recognition  
95) Which of the following are included in the category of corporate profits when measuring GDP?  
I. Profits paid as dividends.  
II. Undistributed profits.  
III. Income received by owners and operators of businesses.  
A) I only.  
B) I and II.  
C) I and III.  
D) I, II and III.  
Answer: B

Topic: Indirect Tax  
Skill: Recognition  
96) An indirect tax is a tax paid by consumers  
A) to a state or local government.  
B) when they purchase goods and services.  
C) on unearned income (as opposed to wages and salaries).  
D) that is a percentage of the value of their real property.  
Answer: B

Topic: Indirect Tax  
Skill: Conceptual  
97) All of the following are indirect taxes EXCEPT  
A) cigarette sales taxes.  
B) income taxes.  
C) liquor excise taxes.  
D) taxes on utility bills.  
Answer: B

Topic: Net Domestic Income At Factor Cost  
Skill: Recognition  
98) The sum of compensation to employees, rental income, corporate profits, net interest, and proprietors’ income is  
A) gross domestic product.  
B) gross domestic income.  
C) net domestic income at factor cost.  
D) net domestic product.  
Answer: C

Topic: Income Approach  
Skill: Conceptual  
99) Reasons why valuing goods at their market prices is different than valuing them at their factor costs include  
A) depreciation and investment.  
B) exports and imports.  
C) personal taxes and corporate taxes.  
D) indirect taxes and subsidies.  
Answer: D

Topic: Income Approach, Depreciation  
Skill: Recognition  
100) Gross domestic product minus net domestic product equals  
A) exports minus imports.  
B) imports minus exports.  
C) net taxes.  
D) depreciation.  
Answer: D
### Corporate Profits

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount (billions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross investment</td>
<td>1300</td>
</tr>
<tr>
<td>Personal consumption expenditure</td>
<td>1475</td>
</tr>
<tr>
<td>Depreciation</td>
<td>25</td>
</tr>
<tr>
<td>Government purchases</td>
<td>1315</td>
</tr>
<tr>
<td>U.S. imports</td>
<td>260</td>
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<tr>
<td>U.S. exports</td>
<td>249</td>
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<tr>
<td>Compensation of employees</td>
<td>65</td>
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</table>

### Expenditure Approach

104) The above table gives data for a hypothetical nation. Gross domestic product is

A) $4,049 billion.
B) $4,079 billion.
C) $4,054 billion.
D) $4,339 billion.

**Answer:** B

### Net Domestic Product

105) The above table gives data for a hypothetical nation. Net domestic product is

A) $4,039 billion.
B) $4,044 billion.
C) $4,054 billion.
D) $4,314 billion.

**Answer:** C

### Real GDP and the Price Level

106) Real GDP measures the

A) total profits earned by all businesses valued using prices from a single year.
B) changes in the prices of output measured in dollars.
C) general upward drift in prices.
D) value of total production linked to prices of a single year.

**Answer:** D
107) The old, traditional base-year method of calculating real GDP compared
A) the quantities of goods produced in consecutive years using prices in both years and averaging the percentage changes in the value of output.
B) quantities produced in different years using prices from a year chosen as a reference period.
C) quantities produced in different years with the prices that prevailed during the year in which the output was produced.
D) prices at different points in time using a sample of goods that is representative of goods purchased by households.
Answer: B

108) Which of the following relationships is correct?
A) Nominal GDP = (GDP Deflator ÷ Real GDP) × 100
B) Real GDP = (Nominal GDP × GDP Deflator) ÷ 100
C) GDP Deflator = (Nominal GDP ÷ Real GDP) × 100
D) Real GDP = Nominal GDP × 100
Answer: C

109) To calculate real GDP, the GDP deflator can be used to adjust nominal GDP for changes in
A) national income.
B) the unemployment rate.
C) the cost of the typical urban worker’s market basket.
D) the general price level.
Answer: D

110) Economists distinguish real from nominal GDP to
A) determine whether the government sector is growing.
B) measure the change in nominal interest rates.
C) determine whether economic welfare has changed.
D) determine whether real production has changed.
Answer: D

111) In years with inflation, nominal GDP increases _____ real GDP.
A) faster than
B) slower than
C) at the same rate as
D) sometimes faster, sometimes slower, and sometimes at the same rate as
Answer: A

112) Suppose an economy has some inflation. Then, after a base year, the value of real GDP will
A) be less than nominal GDP.
B) not be different from nominal GDP.
C) be greater than nominal GDP.
D) will be approximately half the value of nominal GDP.
Answer: C

113) If nominal GDP is $5 trillion and the GDP deflator is 125, what is real GDP?
A) $4 trillion
B) $0.04 trillion
C) $625 trillion
D) $6.25 trillion
Answer: A

114) What is the value of real GDP if the value of the GDP deflator is 122.5 and nominal GDP is $825 billion?
A) $6.735 billion
B) $673.5 billion
C) $702.5 billion
D) $1.010.6 billion
Answer: B
115) The chain-weighted output index
A) uses only the current year’s prices to calculate growth in real GDP.
B) uses prices for the current year and the previous year to calculate growth in real GDP.
C) must only be calculated every other year.
D) is an inaccurate way to measure growth in real GDP and so has been replaced by the “nominal-to-real” index.

Answer: B

116) The chain-weighted output index method of calculating real GDP compares
A) compares the quantities of goods produced in consecutive years using prices in both years and averaging the percentage changes in the value of output.
B) quantities produced in different years using prices from a year chosen as a reference period.
C) quantities produced in different years with the prices that prevailed during the year in which the output was produced.
D) prices at different points in time using a sample of goods that is representative of goods purchased by households.

Answer: A

117) The chain-weighted output index method of measuring real GDP is based on
A) using current prices rather than base year prices
B) averaging the market value of the expenditures over a two year period and then comparing with a base period.
C) using the prices of two adjacent years to calculate the growth rate of real GDP.
D) averaging the nominal and real measures of GDP to come up with a more accurate figure.

Answer: C

118) The GDP deflator equals 100 times
A) nominal GDP divided by real GDP.
B) real GDP divided by nominal GDP.
C) gross domestic product divided by net domestic product.
D) net domestic product divided by gross domestic product.

Answer: A

119) Suppose that nominal GDP per person is $18,000 in 2004, the 1998 GDP deflator is 100, and the 2004 GDP deflator is 110. The approximate real per person GDP in 2004 is
A) $16,364.
B) $16,634.
C) $18,000.
D) $19,800.

Answer: A

120) Suppose that nominal GDP per person is $17,000 in 2004, the 1998 GDP deflator is 100, and the 2004 GDP deflator is 90. The approximate real GDP per person in 2004 is
A) $17,000.
B) $18,889.
C) $32,300.
D) $15,300.

Answer: B

121) Suppose that nominal GDP per person is $21,000 in 2004, the 1998 GDP deflator is 100, and the 2004 deflator is 105. The approximate real GDP per person in 2004 is
A) $20,000.
B) $21,000.
C) $19,048.
D) $22,050.

Answer: A
**Topic: GDP Deflator**
**Skill: Recognition**
122) The implicit GDP deflator is calculated by
A) comparing the quantities of goods produced in consecutive years using prices in both years and averaging the percentage changes in the value of output.
B) comparing the quantities produced in different years using prices from a year chosen as a reference period.
C) comparing the quantities produced in different years with the prices that prevailed during the year in which the output was produced.
D) dividing nominal GDP by real GDP.
Answer: D

**Measuring Economic Growth**

**Topic: Over Adjustment for Inflation**
**Skill: Conceptual**
123) If the GDP deflator is biased by quality changes, the result is that
A) nominal GDP is understated.
B) real GDP is overstated.
C) there is no effect upon the correct level of real GDP.
D) real GDP is understated.
Answer: D

**Topic: Household Production**
**Skill: Recognition**
124) Which of the following is NOT included in real GDP?
A) Production of services, such as the services of doctors.
B) Production of goods that last more than one year, such as television sets.
C) Production of goods that do not last more than one year, such as gasoline.
D) Production in the home.
Answer: D

**Topic: Household Production**
**Skill: Analytical**
125) If a larger fraction of the adult population is working, household production
A) counted in real GDP increases.
B) not counted in real GDP increases.
C) counted in real GDP decreases.
D) not counted in real GDP decreases.
Answer: D

**Topic: Underground Economic Activity**
**Skill: Recognition**
126) Which of the following is NOT included in real GDP?
A) Production of services, such as the services of hair dressers.
B) Production of goods that last less than a year, such as production of hot dogs.
C) Production that takes place in the underground economy.
D) Production of goods that last more than a year, such as a pair of roller blades.
Answer: C

**Topic: Underground Economic Activity**
**Skill: Conceptual**
127) The underground economy exists for all of the following reasons EXCEPT the
A) production of illegal goods.
B) avoidance of taxes.
C) desire to maintain accurate records of economic transactions.
D) avoidance of government regulation.
Answer: C

**Topic: Environmental Quality**
**Skill: Conceptual**
128) Because pollution reduces economic welfare, real GDP
A) decreases as pollution increases.
B) increases to take into account the expenditures that will be made in the future to clean up the pollution.
C) overstates economic welfare.
D) understates economic welfare.
Answer: C
129) In the post World War II period, considerable growth in total production took place in the U.S. But at the same time, businesses were able to produce by dumping their waste into the Great Lakes with minimal cost, significantly polluting the bodies of water as a result. This occurrence is an example where

A) real GDP gives an overly positive view of economic welfare.
B) real GDP gives an overly negative view of economic welfare.
C) investment would have been a better measure of total production.
D) the pollution counts as a final good.

Answer: A

130) Which of the following would lead GDP to overstate economic welfare?

A) the existence of home-cooked meals.
B) restaurant workers that under-report tip income.
C) a self-employed CPA who takes a longer than normal vacation.
D) electric utilities that switch to burning coal because of higher natural gas prices and thereby create more acid rain pollution.

Answer: D

131) Purchasing power parity prices are used to construct GDP data that

A) do not omit the underground economy.
B) can be used to make more valid comparisons between one country and another.
C) is a proper measure of economic welfare.
D) adjust for differences in population.

Answer: B

132) If we compare the U.S. GDP and the Chinese GDP,

A) GDP per person is about the same in the two countries.
B) U.S. GDP per person is less than China’s GDP per person once we adjust for currency differences.
C) China’s GDP per person is less than GDP per person in the United States.
D) U.S. GDP per person was much larger than China’s GDP per person when purchasing power parity prices are used but is less than China’s GDP per person when exchange rate prices are used.

Answer: C

133) Which of the following is NOT a final good?

A) a new computer sold to an NYU student
B) a new car sold to Avis for use in their fleet of rental cars
C) a purse sold to a foreign visitor
D) a hot dog sold to a spectator at a Chicago Bears football game

Answer: B

134) GDP equals

A) aggregate expenditure.
B) aggregate income.
C) the value of the aggregate production in a country during a given time period.
D) all of the above.

Answer: D
**Topic:** Study Guide Question, Financing Investment  
**Skill:** Recognition  
135) A nation’s investment must be financed by  
A) national saving only.  
B) the government’s budget deficit.  
C) borrowing from the rest of the world only.  
D) national saving plus borrowing from the rest of the world.  
**Answer:** D

**Topic:** Study Guide Question, Flows and Stocks  
**Skill:** Conceptual  
136) Which of the following is a flow?  
A) GDP  
B) Wealth  
C) The amount of money in a savings account  
D) Capital  
**Answer:** A

**Topic:** Study Guide Question, Flows and Stocks  
**Skill:** Conceptual  
137) Which of the following is a stock?  
A) Income  
B) Depreciation  
C) Investment  
D) Capital  
**Answer:** D

**Topic:** Study Guide Question, Flows and Stocks  
**Skill:** Conceptual  
138) ____ is a flow variable and ____ is a stock variable.  
A) Wealth; income  
B) Income; capital  
C) Wealth; capital  
D) Depreciation; income  
**Answer:** B

**Topic:** Study Guide Question, Expenditure Approach, Investment  
**Skill:** Conceptual  
139) Gross private domestic investment is a component of which approach to measuring GDP?  
A) Incomes approach  
B) Expenditure approach  
C) Linking approach  
D) Output approach  
**Answer:** B

**Topic:** Study Guide Question, Incomes Approach  
**Skill:** Conceptual  
140) Which of the following is NOT a component of the incomes approach to GDP?  
A) Net exports  
B) Wages and salaries  
C) Corporate profits  
D) Proprietors’ income  
**Answer:** A

**Topic:** Study Guide Question, Real GDP  
**Skill:** Recognition  
141) Currently, real GDP is calculated using  
A) the quantities only method.  
B) base year prices method.  
C) current year prices method.  
D) chain-weighted output index method.  
**Answer:** D

**Topic:** Study Guide Question, Real GDP  
**Skill:** Analytical  
A) $104  
B) $106  
C) $108  
D) None of the above answers is correct.  
**Answer:** B

**Topic:** Study Guide Question, Real and Nominal GDP  
**Skill:** Analytical  
143) If the GDP deflator for 2004 is 125, nominal GDP  
A) equals real GDP in 2004.  
B) is greater than real GDP in 2004.  
C) is less than real GDP in 2004.  
D) in 2003 will be less than real GDP in 2004.  
**Answer:** B
### Topic: Study Guide Question, Real and Nominal GDP

#### Skill: Analytical

144) Using the data in the above table, what is real GDP in 2004?

A) $2137 billion.
B) $2520 billion.
C) $2381 billion.
D) $2051 billion.

**Answer: C**

#### Topic: Study Guide Question, Real and Nominal GDP

#### Skill: Analytical

145) Using the data in the above table, what is nominal GDP in 2005?

A) $2400 billion.
B) $2381 billion.
C) $2808 billion.
D) $2520 billion.

**Answer: C**

### Topic: Study Guide Question, Environmental Quality

#### Skill: Conceptual

146) Pollution is a by-product of some production processes, so real GDP as measured

A) is adjusted downward to take into account the pollution.
B) is adjusted upward to take into account the expenditures that will be made in the future to clean up the pollution.
C) tends to overstate economic welfare.
D) tends to understate economic welfare.

**Answer: C**

### MyEconLab Questions

#### Topic: Flows and Stocks

#### Level 1: Definitions and Concepts

149) An example of a stock is ____ and an example of a flow is ____.

A) depreciation; capital
B) capital; investment
C) investment; capital
D) investment; depreciation

**Answer: C**
150) Depreciation equals ____.
   A) capital minus gross investment
   B) capital minus net investment
   C) net investment minus gross investment
   D) gross investment minus net investment
   Answer: D

151) Government purchases include ____.
   A) social security and education
   B) net exports
   C) buying a new bomber
   D) Both answers A and C are correct
   Answer: C

152) A country’s investment can be financed by ____.
   A) a government budget surplus
   B) national saving and foreign borrowing
   C) only saving by households and firms
   D) making exports exceed imports
   Answer: B

153) Gross Domestic Product is equal to the sum of consumption expenditure, investment, net exports, and ____.
   A) government purchases
   B) saving
   C) profits
   D) net taxes
   Answer: A

154) Intermediate goods and services ____.
   A) are double counted in GDP
   B) are used to produce final goods and services
   C) include used goods
   D) are included in GDP
   Answer: B

155) The income approach measures GDP by adding together compensation of employees, proprietors’ income, ____.
   A) net investment, saving, and farmers’ income
   B) net interest, rental income, and corporate profits
   C) net investment, rental income, and corporate profits
   D) net saving, investment income, and profits
   Answer: B

156) The chain-weighted output index method ____.
   A) is used to calculate the value of nominal GDP
   B) values the quantities produced in a year at the prices of the base year
   C) shows that real GDP increases every year
   D) uses the prices of two adjacent years to calculate the real GDP growth rate
   Answer: D

157) The measure of the price level, which is an average of current year prices expressed as a percentage of base-year prices is the ____.
   A) GDP inflator
   B) inflation rate
   C) Urban GDP Price Level
   D) GDP deflator
   Answer: D

158) GDP deflator equals ____.
   A) \( \frac{\text{Nominal GDP} \times 100}{\text{Real GDP}} \)
   B) \( \frac{\text{Nominal GDP} + \text{Real GDP}}{\text{Real GDP}} \times 100 \)
   C) nominal GDP
   D) \( \frac{\text{Real GDP} + \text{Nominal GDP}}{\text{Real GDP}} \times 100 \)
   Answer: B
**Topic: Flows and Stocks**

**Level 2: Using Definitions and Concepts**

159) Investment is a ____ that ____ the ____ of capital.

A) flow; increases; stock  
B) stock; decreases; stock  
C) stock; increases; flow  
D) flow; adds to; flow

**Answer: A**

**Topic: Flows and Stocks**

**Level 2: Using Definitions and Concepts**

160) When ____ is greater than ____, saving increases ____.

A) income; government purchases; wealth  
B) income; consumption expenditure; wealth  
C) consumption expenditure; government purchases; wealth  
D) government purchases; consumption expenditure; taxes

**Answer: B**

**Topic: Financing Investment**

**Level 2: Using Definitions and Concepts**

161) If the government budget is balanced and investment is equal to saving, then ____.

A) exports equal imports  
B) net exports are positive  
C) the country does not trade internationally  
D) net exports are negative

**Answer: A**

**Topic: Expenditure Approach**

**Level 2: Using Definitions and Concepts**

162) Which of the following items is not a component of the expenditure approach to measuring U.S. GDP?

A) purchases of food made by families  
B) social security payments made by the government  
C) purchases of U.S.-made movies by Europeans  
D) purchases of new homes made by families

**Answer: B**

**Topic: Income Approach**

**Level 2: Using Definitions and Concepts**

163) Which of the following items is not a component of the income approach to measuring U.S. GDP?

A) interest earned on savings deposits  
B) profits made by businesses  
C) income earned by businesses that export goods  
D) investment

**Answer: D**

**Topic: Items Not in GDP**

**Level 2: Using Definitions and Concepts**

164) Which of the following items are counted in GDP? A taxi company’s ____.

A) sale of some bonds to finance its purchases  
B) purchase of new trip meters for its cars  
C) sale of 5 old cabs  
D) purchase of 5 new cabs

**Answer: D**

**Topic: Price Level**

**Level 2: Using Definitions and Concepts**

165) Paying higher prices means that our ____.

A) standing of living has decreased  
B) cost of living has increased  
C) cost of living has increased and our standard of living has increased  
D) standard of living has increased

**Answer: B**

**Topic: Real and Nominal GDP**

**Level 2: Using Definitions and Concepts**

166) One year after the base year, the price level rises. In this year, nominal GDP is ____ real GDP, and the GDP deflator is ____.

A) less than; less than 100  
B) equal to; equal to 10  
C) greater than; greater than 100  
D) less than; greater than 100

**Answer: C**

**Topic: GDP and Economic Welfare Comparisons**

**Level 2: Using Definitions and Concepts**

167) What we produce during our working time is ____ as part of GDP and the enjoyment we gain from our leisure time is ____ as part of GDP.

A) included; not included  
B) included; included  
C) not included; included  
D) not included; not included

**Answer: A**
Topic: GDP and Economic Welfare Comparisons
Level 2: Using Definitions and Concepts
168) Real GDP is not a good indicator of economic welfare because _____.
   A) it includes the underground economy
   B) it includes a direct measure of health and life expectancy
   C) it underestimates inflation
   D) economic welfare depends on many factors not measured or not measured accurately by real GDP
Answer: D

<table>
<thead>
<tr>
<th>Item</th>
<th>Millions of dollars</th>
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<tbody>
<tr>
<td>Personal consumption expenditure</td>
<td>80</td>
</tr>
<tr>
<td>Government purchases of goods and services</td>
<td>30</td>
</tr>
<tr>
<td>Net taxes</td>
<td>35</td>
</tr>
<tr>
<td>Gross private domestic investment</td>
<td>20</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>10</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>20</td>
</tr>
</tbody>
</table>

Topic: Expenditure Approach
Level 3: Calculations and Predictions
169) Using the information in the table above, calculate the value of GDP.
   A) $185 million
   B) $145 million
   C) $195 million
   D) $140 million
Answer: D

Topic: Financing Investment
Level 3: Calculations and Predictions
171) Use the information in the table above to calculate the value of private saving.
   A) −$15 million
   B) $40 million
   C) $25 million
   D) $20 million
Answer: C

<table>
<thead>
<tr>
<th>Item</th>
<th>Billions of dollars</th>
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<tbody>
<tr>
<td>Compensation of employees</td>
<td>80</td>
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<td>Net interest and rental income</td>
<td>30</td>
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<td>Corporate profits</td>
<td>10</td>
</tr>
<tr>
<td>Proprietor’s income</td>
<td>20</td>
</tr>
</tbody>
</table>

Topic: Net Domestic Income at Factor Cost
Level 3: Calculations and Predictions
173) Use the information in the table above to calculate the value of net domestic income at factor cost.
   A) $80 billion
   B) $140 billion
   C) $100 billion
   D) $90 billion
Answer: B

Topic: Income Approach
Level 3: Calculations and Predictions
174) Use the information in the table above plus the fact that indirect taxes less subsidies are $10 billion and depreciation is $30 billion to calculate the value of GDP.
   A) $180 billion
   B) $150 billion
   C) $140 billion
   D) $130 billion
Answer: A
<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal GDP (billions of dollars)</th>
<th>Real GDP (billions of 2000 dollars)</th>
<th>GDP deflator</th>
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<td>2003</td>
<td>90</td>
<td>120</td>
<td>125</td>
</tr>
<tr>
<td>2004</td>
<td>125</td>
<td>125</td>
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</table>

**Topic: Real and Nominal GDP**  
**Level 3: Calculations and Predictions**  
175) Use the information in the table above to calculate nominal GDP in 2003.  
A) $75 billion  
B) $0.75 billion  
C) $10,800 billion  
D) $108 billion  

**Answer: D**

**Topic: Real and Nominal GDP**  
**Level 3: Calculations and Predictions**  
176) Use the information in the table above to calculate real GDP in 2004.  
A) $1 billion  
B) $100 billion  
C) $156.25 billion  
D) $95 billion  

**Answer: B**

**Topic: GDP Growth Rate**  
**Level 3: Calculations and Predictions**  
177) If real GDP in 2003 is $9 trillion and real GDP in 2004 is $9.27 trillion, then the economic growth rate in 2004 is _____.  
A) 2.7 percent  
B) $0.27 trillion  
C) 3.0 percent  
D) $9.27 trillion  

**Answer: C**

**Topic: Chain-Weighted Growth Rate**  
**Level 3: Calculations and Predictions**  
178) At 2003 prices, the value of production in 2004 was 6 percentage points higher than in 2003. At 2004 prices, the value of production in 2004 was 4 percentage points higher than in 2003. Using the chain-weighted output index, real GDP is ____ in 2004 than in 2003.  
A) 10 percent greater  
B) 5 percent greater  
C) 7.5 percent greater  
D) 4 percent smaller  

**Answer: B**

**Topic: Expenditure Approach**  
**Level 4: Advanced Calculations and Predictions**  
179) In 2004, the country of Nerf had its imports equal its exports. Nerf’s GDP was $500 million, its consumer expenditure was $380 million, and its investment was $20 million. Nerf’s government purchases were ____.  
A) $100 million  
B) $900 million  
C) $500 million  
D) zero  

**Answer: A**

**Topic: Financing Investment**  
**Level 4: Advanced Calculations and Predictions**  
180) Last year in the country of More, government purchases of goods and services were $20 million and the government had a budget deficit of $3 million. Consumption expenditure was $7 million, and there was dissaving of $2 million. GDP in More was _____.  
A) $28 million  
B) $32 million  
C) $22 million  
D) $26 million  

**Answer: C**

**Topic: Financing Investment**  
**Level 4: Advanced Calculations and Predictions**  
181) The country of Erdf has net exports of $5 million. Government purchases of goods and services are $15 million and the government has a budget surplus of $5 million. Investment is $5 million. Private saving in Erdf is ____.  
A) $10 million  
B) zero  
C) $15 million  
D) $5 million  

**Answer: D**
Topic: Financing Investment
Level 4: Advanced Calculations and Predictions
182) The country of Erdf has net exports of $-5 million. Government purchases of goods and services are $15 million and the government has a budget surplus of $5 million. Investment is $5 million. National saving in Erdf is ____.
A) $10 million
B) $15 million
C) $5 million
D) $-5 million
Answer: A

Topic: Financing Investment
Level 4: Advanced Calculations and Predictions
183) If the government has a budget surplus and saving is equal to investment, then ____.
A) aggregate expenditure does not equal aggregate income
B) imports exceed exports
C) imports equal exports
D) imports are less than exports
Answer: D

Topic: Income Approach
Level 4: Advanced Calculations and Predictions
184) In the country of Darrowby, net domestic income at factor cost is $2.0 million. Gross domestic product is $3.0 million, and depreciation is $0.5 million. Indirect taxes less subsidies ____.
A) are $1 million
B) are $0.5 million
C) cannot be calculated
D) are $-0.5 million
Answer: B

Topic: Household Production
Level 4: Advanced Calculations and Predictions
185) Real GDP fluctuations tend to ____ fluctuations in total production because household production ____.
A) overstate; increases during a recession and decreases during an expansion
B) overstate; decreases during a recession and increases during an expansion
C) understate; decreases during a recession and increases during an expansion
D) understate; increases during a recession and decreases during an expansion
Answer: A

Topic: Chain-Weighted Growth Rate
Level 4: Advanced Calculations and Predictions
A) $10.5
B) $11
C) $10.1
D) $12.72
Answer: A

Topic: Expenditure Equals Income
Level 4: Advanced Calculations and Predictions
187) Choose the best statement.
A) GDP equals aggregate expenditure and equals aggregate income.
B) An increase in government purchases increases aggregate expenditure but does not change GDP.
C) An increase in compensation of employees increases aggregate income but does not change GDP.
D) GDP always equals aggregate expenditure and sometimes equals aggregate income.
Answer: A

Topic: GDP Growth Rate
Level 4: Advanced Calculations and Predictions
188) In the country of Kemper, real GDP in 2003 was $5 billion and real GDP in 2004 was $5.5 billion. The economic growth rate in 2004 was ____.
A) 16.7 percent a year
B) $0.5 billion
C) 10 percent a year
D) 1 percent a year
Answer: C